FARMERS' NEWSLETTER

Cotton

January 81/C-15

With this season's cotton harvest virtually complete, many of you must now decide when to sell the remainder of your 1980-crop cotton, as well as make production plans for 1981.

Since cotton supplies are unusually tight, you can expect sharp and short-lived ups and downs in prices during the next few months. The tense international situation and uncertain economic prospects will probably magnify price fluctuations in the weeks ahead.

So, watch for price upswings to sell what's left of this season's crop and to contract a part of your 1981 crop. If you think prices could weaken during 1981, you may want to fix the price of some of your 1981-crop cotton now. In December, for example, growers in the mid-South booked several thousand acres of cotton at 80 to 81 cents a pound. You may recall that in December 1979, forward contracting of 1980-crop cotton involved prices 10 to 15 cents a pound lower.

On the other hand, you may want to fix the price of some of your cotton at a later date by contracting "on call." Your price is determined by the new crop futures price (usually the December contract) on the day you call the price. Some mid-South growers, for instance, agreed to sell at 3 to 4 cents a pound below the December 1981 futures price on the day of the price call. Here's some information to help you assess the price outlook for the coming year...

Tight U.S. Supplies . . .

A tight supply-demand balance is in store for U.S. cotton during the last half of the current crop year, and very likely well into the 1981/82 season that begins on August 1, 1981. This season's supply is down sharply because of lower beginning stocks and a smaller crop.

Mill use and exports are expected to take 11.5 million bales this season--well below last year's level, but still about 0.6 million above estimated production. The carryover next July 31 may fall to about 2.6 million bales, versus 3 million at the start of the year.

Based on December 1 conditions, the 1980 U.S. crop was estimated at 10.9 million bales, down from 14.6 million last year. Although harvested acreage was up 3 percent, hot, dry weather in the Southwest and parts of the Delta and Southeast reduced the U.S. average yield to 401 pounds per harvested acre, 27 percent below the previous season's record high.

Outside the United States, cotton supplies are not quite as tight this season due to record production. The foreign crop is projected at 53 million bales, 2 million above 1979/80. The Soviet Union, a major cotton exporter,

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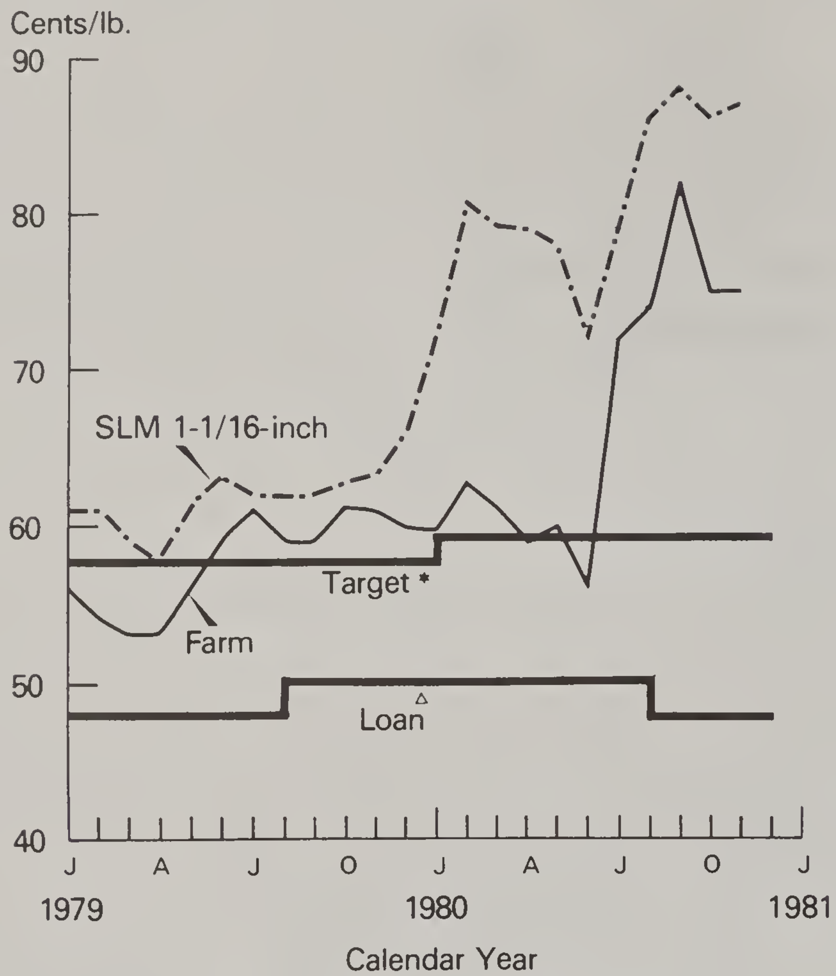
FARM PRICES STRENGTHEN



* Target price is for calendar year.
△ SLM 1-1/16 inch at average location; for year beginning August 1.

may harvest a record 14.2 million bales. Total foreign use could also reach an alltime high--59.3 million bales--reflecting increases in the USSR, China, and Turkey. End-of-season stocks are projected at 17.9 million bales, versus 18.7 million last summer.

. . . Will Limit Exports

The difference between foreign cotton production and consumption--a measure of our export potential--comes to 6.3 million bales this season, down from 8 million in 1979/80. However, tight domestic supplies and relatively high prices are limiting U.S. sales.

U.S. prices remain some 5-7 cents per pound above most foreign cotton in international markets. Consequently, importing countries are buying elsewhere and drawing down stocks to meet their needs. As a result, U.S. cotton export prospects have been reduced to 5.5 million bales, well below last season's exceptional level.

. . . And Mill Use

Domestic textile mills are expected to use around 6 million bales this season, down from 6.5 million in 1979/80. In September and October, the rate of use averaged 6.25 million bales (seasonally adjusted annual rate), slightly above August, but about 4 percent below a year earlier.

Cotton use is likely to slip further this winter because of tight supplies, relatively high prices, and rising product inventories. For example, mill stocks of denim fabric now stand about 80 percent above year-earlier levels. About 1 million bales of cotton go into denim each year.

. . . But Strengthen Prices

Farm prices of upland cotton during August-November were about 15 cents a pound above the 1979/80 average. In mid-November, prices averaged about 75 cents a pound. Mid-December spot prices of SLM 1-1/16 inch cotton averaged 86 cents a pound, nearly 20 cents above a year earlier.

SUPPLIES TIGHTEN

Upland and extra long staple cotton	1978/79	1979/80	1980/81 pro-jected	1980/81 prob. variab.[1]
	Million 480-lb. bales			
Beginning stocks	5.3	4.0	3.0	
Production	10.9	14.6	10.9	± 0.2
Supply, total	16.2	18.6	14.0	± 0.2
Mill use	6.4	6.5	6.0	± 0.3
Exports	6.2	9.2	5.5	± 0.7
Use, total	12.5	15.7	11.5	± 0.6
Difference unaccounted	.3	.1	.1	
Ending stocks	4.0	3.0	2.6	± 0.6
Average farm price (cts./lb.)	58.4	[2]62.6	([3])	

[1] Chances are about 2 out of 3 that the outcome will fall within the indicated range. [2] Weighted average price for the first 8 months of the season. [3] USDA is prohibited from publishing cotton price projections. Note: Totals may not add due to rounding.

Quick Word on 1981 Planting Options

No doubt, the most important factor affecting prices next fall will be the size of the 1981 cotton crop. Here's something to bear in mind as you weigh your planting options.

Although cotton prices have increased since last spring, so have prices of competing crops such as soybeans and grain sorghum. Most commodities also are currently subject to sharp price fluctuations. So, you'll need to keep a close eye on prices and study your options during the next several weeks.

The season's first indication of 1981 acreage will appear in the Prospective Plantings report, to be issued on January 21. While the report will cover only 16 States--compared with 34 in recent years--it will include all major cotton States except Missouri.

Figuring Your Returns

Farmers often use "rules of thumb" in making production decisions. Traditionally, these stated that the breakeven price ratio between soybeans and corn is 2.5 to 1, and for soybeans and cotton, 10 to 1. In other words, if soybean prices are more than 2-1/2 times corn prices and more than 10 times cotton prices, soybeans are considered more profitable than either corn or cotton.

While the break-even concept can be very useful, as prices, costs, and yields change, so do break-even prices --and the ratio itself. The soybean/cotton break-even ratio of 10 to 1 only applies to a given set of prices, costs, and yields, and the ratios will vary from year to year and from farm to farm.

There is a way you can more precisely compute the cotton price needed to make your returns from cotton equal those of competing crops. For example, say a soybean-cotton producer expects the following prices, costs, and yields (planted acre basis):

Item	Cotton	Soybeans
Price	?	$8.00 bu.
Variable costs	$300/acre	$95/acre
Yields	500 lb./acre	25 bu./acre
Cottonseed value	$50/acre	0

Calculate as follows...

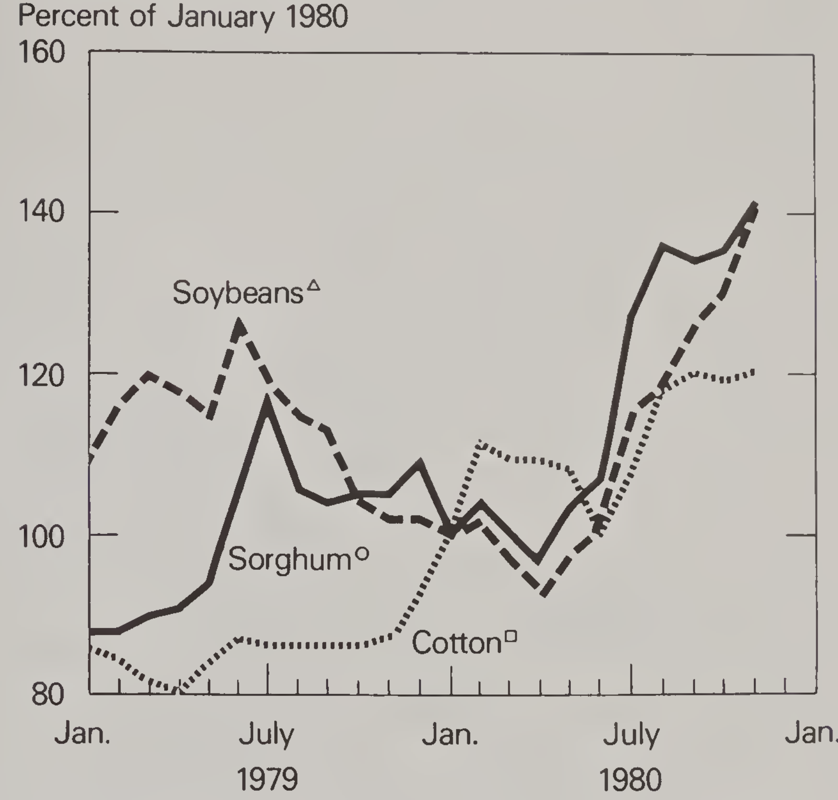
(1) Returns from soybeans:
($8.00 x 25) - $95 = $105 per acre

(2) Costs of producing cotton minus cottonseed value:
$300 - $ 50 = $250 per acre

(3) Required cotton price:
$\frac{(\$105 + 250)}{500 \text{ lb./acre}} = \$0.71$ per lb.

In this example, the producer would have to get 71 cents per pound for cotton to cover the variable costs per acre and regain what was lost by not planting soybeans. If the producer expected to sell cotton at less than 71

SOYBEAN, SORGHUM PRICE INCREASES OUTSTRIP COTTON



△No. 1 yellow, Chicago. □SLM 1-1/16 inch, spot markets. ○No. 1 yellow, Kansas City.

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cents, soybeans would be the better crop and vice versa. The break-even price ratio in this case is 11.3 to 1 (or $8.00 to .71).

Now, suppose this farmer expected to get $9 per bushel of soybeans with nothing else changed. Net returns from soybeans would then be $130 per acre.

($9.00 x 25) -$95 = $130

The required cotton price is 76 cents a pound.

($250 + $130) ÷ 500 = $0.76

In this example, the break-even price ratio is 11.8 to 1...or $9.00 to .76.

Program Notes

The loan rate for SLM 1-1/16-inch cotton is 52.46 cents per pound, 4.46 cents higher than the 1980 rate.

The 1981 target price is expected to be between 68.5 and 75.5 cents a pound, compared with 58.4 cents for 1980. The target price will be announced next spring when 1980 yields and production cost estimates become available.

If the national average farm price in calendar 1981 is below the target, program participants will receive deficiency payments--probably in February 1982. Farm prices currently average at the top of the 1981 target price range.

Your deficiency payment would be the difference between the average U.S. farm price and the target price, regardless of the price you got for your cotton. For example, if the national average price were 70 cents a pound, and the target price were 72 cents, you would get 2 cents a pound whether you sold your cotton for 70 cents or 80 cents.

Producers who plant no more cotton in 1981 than was planted and considered as planted in 1980 will be eligible for any deficiency payments on the entire 1981 planted acreage. Producers exceeding their 1980 acreage will be subject to an allocation factor. However, based on current estimates, it appears the allocation factor will be 100 percent.

There is no set-aside and no requirement that you stay within your farm's normal crop acreage (NCA). This is true even if you also grow wheat or feed grains. You are encouraged, however, not to plant on lands subject to excess erosion. Any acreage increases in 1981 will not be used in determining farm NCA's in future years.